

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PA-02 PRS-01

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R 191233Z JAN 76

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 9793

UNCLAS TEL AVIV 0450

E.O. 11652: N/A

TAGS: ECON, EFIN, AFSP, IS

SUBJECT: ISRAELI INFLATION IN 1975

1. ISRAEL'S CONSUMER PRICE INDEX (CPI) ROSE 23.5 PERCENT IN 1975 COMPARED TO 56.2 PERCENT INCREASE DURING PREVIOUS YEAR. AVERAGE LEVEL CPI IN 1975 WAS 39.3 PERCENT HIGHER THAN 1974 WHICH WAS 39.7 PERCENT HIGHER THAN 1973.
 2. RHYTHM OF INFLATION DURING YEAR WAS INCREASE AT MODERATE RATE IN FIRST FIVE MONTHS FOLLOWED BY A SLIGHT DECREASE IN JUNE AND VIRTUAL LEVELING OF IN JULY AND AUGUST. INFLATION INCREASED IN SEPTEMBER - NOVEMBER BUT ROSE ONLY SLIGHTLY IN DECEMBER. ALMOST HALF CPI'S INCREASE DURING YEAR OCCURRED IN THE LAST QUARTER, AFTER THE TEN PERCENT DEVALUATION AND TAX INCREASES OF SEPTEMBER 28.
 3. PRESS HAS REPORTED ESTIMATES OF TEN PERCENT COST-OF-LIVING ALLOWANCE (TFCOLA) TO A MAXIMUM OF IL 400 AS RESULT OF INCREASES CPI. COLA WILL EQUAL 70 PERCENT OF DIFFERENCE AVERAGE CPI DECEMBER, 1975, THROUGH FEBRUARY, 1976 COMPARED TO APRIL-JUNE, 1975.
 4. COMMENT: PRICE DEVELOPMENTS IN 1975 ILLUSTRATE TRADITIONAL INFLATION CYCLE IN A SMALL, TRADE ORIENTED
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TIONAL INFLATION CYCLE IN A SMALL, TRADE ORIENTED

COUNTRY. TO SAFEGUARD EXPORT COMPETITIVENESS AND RESTRAIN IMPORTS, CURRENCY MUST BE DEVALUED ROUGHLY IN LINE WITH INTERNAL INFLATION. HOWEVER, DEVALUATIONS CAUSE INCREASE IN PRICES WHICH IN TURN TRIGGERS INCREASED INCOME AND MORE INFLATION.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INFLATION, ECONOMIC ESTIMATES, RETAIL PRICE INDEXES
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TELAV00450
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760020-0167
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760143/aaaablw.tel
Line Count: 67
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: mendozsm
Review Comment: n/a
Review Content Flags:
Review Date: 29 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 JUL 2004 by castelsl>; APPROVED <08 SEP 2004 by mendozsm>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ISRAELI INFLATION IN 1975
TAGS: ECON, EFIN, AFSP, IS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006